

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HAITI

REHABILITATION OF BASIC ECONOMIC INFRASTRUCTURE

(HA-0093)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE2/FI2 TECHNICAL FILES

Preparation:

Documentation for loans 941 and 942/SF-HA (PURE I) and 962/SF-HA (PURE II)
Feasibility and financial studies of sample projects
Technical studies of sample projects
TPM itemized budget
Fact Sheets for Sample Projects

Execution:

ABBREVIATIONS

APN	Autoridad Nacional Portuaria [National Port Authority]
BG PL-480	PL-480 Title III Management Office
BRH	Banque de la République de Haïti
CAMEP	Central Autónoma Metropolitana de Agua Potable [Autonomous Metropolitan Drinking Water Plant]
CIDA	Canadian International Development Agency
CPE	Country program evaluation
EdH	Electricité d'Haïti
EMP	Environmental management plan
ESIA	Environmental and social impact assessment
FAES	Economic and Social Assistance Fund
LAC	Latin America and the Caribbean
MARNDR	Ministry of Agriculture, Natural Resources and Rural Development
MEF	Ministry of Economy and Finance
MOU	Memorandum of understanding
MPCE	Ministry of Planning and External Cooperation
MTPTC	Ministry of Public Works, Transportation, and Communications
OFNAC	Oficina Nacional de Aviación Civil [National Office of Civil Aviation]
SNEP	Servicio Nacional de Agua Potable [National Drinking Water Service]
TEU	Technical executing unit
TPM	Temporary Program Manager
USAID	United States Agency for International Development



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Haiti

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
HA0016	Agricultural Intensification	37.0	
HA0079	Local Development Program	65.0	
HA0093	Program for Rehabilitation of Basic Economic Infrastructure	70.0	
HA0092	Public Finance Reform	25.0	
Total - A : 4 Projects		197.0	
TOTAL 2003 : 4 Projects		197.0	

2004

Project Number	Project Name	IDB US\$ Millions	Status
HA0082	Institutional Strengthening Executive Branch	5.0	
HA0017	Vocational Education	22.0	
HA1001	Government Financial Accountability and Governance	25.0	
HA0087	Road Rehabilitation Program	35.0	
HA1002	Nouveaux Cité Soleil	50.0	
Total - A : 5 Projects		137.0	
HA1003	Rural Economy Development Program	30.0	
Total - B : 1 Projects		30.0	
TOTAL - 2004 : 6 Projects		167.0	
Total Private Sector 2003 - 2004		0.0	
Total Regular Program 2003 - 2004		364.0	

*** Private Sector Project**



HAITI

IDB LOANS

APPROVED AS OF AUGUST 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	748,636	
DISBURSED	586,535	78.34 %
UNDISBURSED BALANCE	162,102	21.65 %
CANCELATIONS	29,146	3.89 %
PRINCIPAL COLLECTED	129,523	17.30 %
APPROVED BY FUND		
ORDINARY CAPITAL	0	0.00 %
FUND FOR SPECIAL OPERATIONS	742,304	99.15 %
OTHER FUNDS	6,332	0.84 %
OUTSTANDING DEBT BALANCE	457,012	
ORDINARY CAPITAL	0	0.00 %
FUND FOR SPECIAL OPERATIONS	456,592	99.90 %
OTHER FUNDS	420	0.09 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	55,608	7.42 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	22,882	3.05 %
ENERGY	0	0.00 %
TRANSPORTATION AND COMMUNICATIONS	211,162	28.20 %
EDUCATION	53,979	7.21 %
HEALTH AND SANITATION	189,405	25.29 %
ENVIRONMENT	0	0.00 %
URBAN DEVELOPMENT	0	0.00 %
SOCIAL INVESTMENT AND MICROENTERPRISE	154,462	20.63 %
REFORM AND PUBLIC SECTOR MODERNIZATION	50,642	6.76 %
EXPORT FINANCING	3,117	0.41 %
PREINVESTMENT AND OTHER	7,380	0.98 %

* Net of cancellations with monetary adjustments and export financing loan collections.



HAITI

STATUS OF LOANS IN EXECUTION AS OF AUGUST 31, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	2	77,000	60,915	79.11 %
1997 - 1998	4	145,900	0	0.00 %
TOTAL	6	\$222,900	\$60,915	27.33 %

* Net of cancellations. Excludes export financing loans.

REHABILITATION OF BASIC ECONOMIC INFRASTRUCTURE

(HA-0093)

EXECUTIVE SUMMARY

Borrower:	Republic of Haiti	
Executing agency:	Ministry of Economy and Finance (MEF)	
Amount and source:	IDB: (FSO)	US\$70,000,000
	Local:	US\$ 7,800,000 ¹
	Total:	US\$77,800,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Commitment period:	4 years
	Disbursement period:	5 years
	Interest rate:	1% during the first ten years, 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
	Currency:	U.S. dollars
Objectives:	<p>The program seeks to spur economic recovery and to improve the quality of life for the population through the rehabilitation of basic economic infrastructure in geographic areas with high economic potential such that the public goods and services supported by infrastructure can be restored and incorporated into the investment horizon of the private sector, thus ensuring the availability of this infrastructure on a continuous basis. To accomplish this aim, the specific objective will be to design, develop, and implement a transparent, flexible mechanism to channel resources toward rehabilitating the deteriorated basic public service infrastructures that will have the greatest impact on revitalizing the local economy, as this will ensure the operation, maintenance, and sustainability of that infrastructure.</p>	

¹ US\$7 million of the local contribution are likely to come from cofinancing. Talks are under way with international agencies, which have expressed interest in cofinancing the operation.

Description:	<p>The program will fund two components: An initial component will help establish a “Basic Economic Infrastructure Rehabilitation Fund” to channel resources to the ministries and sector agencies in charge of the repair, overhaul or improvement of basic economic infrastructure, priority being given to works with a major impact in terms of revitalizing the local economy. As part of this component, financing will be provided for preinvestment, inspection and supervision of works, environmental mitigation measures, and maintenance schedules. A second component will finance various measures aimed at guaranteeing the technical quality of works, the execution of projects, and transparent and sound resource management, as well as measures to evaluate program performance; these include creating the Technical Executing Unit (TEU), providing specific support required by the ministries or line agencies, and contracting a firm to serve as the Temporary Program Manager (TPM).</p>
The Bank’s country and sector strategy:	<p>In August of 2003, upon resuming its operations in Haiti, the Bank prepared a transition strategy with a one-year horizon. One of the strategy’s pillars is to help to revitalize production and improve the community’s standard of living. Toward that end, it calls for assistance to be given for basic infrastructure development, revitalization of agriculture, and social action programs, all of which lay the foundations for long-term development. This operation was included in the transition strategy as a mechanism for rehabilitating basic infrastructure and improving access to essential public services.</p>
Environmental and social review:	<p>The types of civil works that the program will be financing normally have a direct, and in some cases an indirect, impact on the environment. For the purposes of identifying and mitigating the potential negative environmental consequences of the works to be financed with program resources, the Operating Regulations will incorporate environmental and social considerations throughout the entire project cycle to ensure that the Bank’s environmental policies and local standards are adhered to. Preinvestment studies will be required to include an environmental and social assessment of potential socioenvironmental impacts, and one eligibility criterion for projects will be that they have no significant social or environmental impact and include appropriate mitigation measures. The environmental monitoring of the projects will be entrusted to the TPM, which will need to have an environmental specialist on a full-time basis. Should it be necessary to relocate families, the Bank’s Involuntary Resettlement Policy will be followed. The program budget will include a specific line item for conducting environmental and social assessments, applying mitigation measures for potential socioenvironmental impacts, and performing technical environmental audits throughout program execution. To guarantee the sustainability</p>

of these works, an aim will be to generate a sense of ownership among users, beneficiaries and residents of the project. The TPM will advise line agencies with regard to participatory mechanisms that get the community of users, beneficiaries and residents involved in construction, maintenance, and management.

Benefits:

The operation will help to revitalize the economy and to raise quality of life indices for the Haitian population through projects to rehabilitate the country's basic infrastructure. The concentration of public investment projects, together with sufficient levels of quality and maintenance, should aid in generating momentum for private investment in the areas and sectors benefiting from these works. The program's impact may therefore be measured with indicators such as access to basic services, levels of private investment, and indices of economic activity.

Risks:

There are multiple risks associated with this operation. First and foremost, information about the country's needs, priorities, and capacities is lacking. There are no reliable statistics or data. Given the limited success of past operations and the interruption of lending operations on the part of international agencies and the Bank itself in the recent past, it is difficult to identify successful models of operations that could be replicated. To overcome this problem, a mechanism has been designed to draw lessons from project performance and incorporate them, fine-tuning the methodology and the institutional framework along the way.

Political instability and the weakness of public institutions in Haiti may hinder the success of the operation. To attempt to reduce this risk, this operation will support the activities of the executing agency and the line ministries through a private firm that will serve as TPM. Dividing the program into three stages, each one corresponding to one of the tranches, can create linkage to progress in institutional strengthening, e.g., resources from the second and third tranche could be directed toward those sectors that have made more progress in this regard.

Special contractual clauses:**Conditions precedent to first disbursement**

The first disbursement of program resources will be contingent upon fulfillment, to the Bank's satisfaction, of the following precedent conditions, that:

- i. The executing agency has opened with Banque de la République de Haïti two special, separate accounts, one for the loan resources and the other for the local counterpart funding;

- ii. The preinvestment works corresponding to the sample of projects listed in Annex II, including for each one an environmental analysis, have been updated and finalized;
- iii. The program environmental management study has been presented;
- iv. The TEU has been established, organized, and physically put in place, and its core personnel have been selected (at least one financial specialist and an engineer);
- v. Personnel for the Temporary Program Management have been hired through an international competitive bidding process in accordance with terms of reference agreed on with the Bank;
- vi. At least one memorandum of understanding has been signed (see paragraph 2.13); and
- vii. The Operating Regulations agreed on between the borrower and the Bank have been adopted and are in effect.

To assist the borrower in fulfilling the conditions precedent and to facilitate the initiation of operations, the Bank may authorize disbursements in a maximum amount of US\$1 million provided that the following conditions precedent in the general conditions have been fulfilled: (i) presentation of a reasoned legal report substantiating that the obligations assumed by the borrower are valid and binding; and (ii) one or more officials have been designated to represent the borrower in all acts relating to the performance of this contract; as well as (iii) accounts have been opened for the proceeds of the loan and the local counterpart funding. The disbursement aforesaid may be used to hire a temporary facilitator (see paragraph 2.29), preinvestment studies of the works contained in the sample, support for the establishment of the TEU, and any other expenses directly related to the implementation of the present operation.

Retroactive financing

The Bank may recognize expenses to a maximum of US\$300,000 incurred between 21 August 2003 and the date on which loan is approved by the board of executive directors as part of the local counterpart funding provided that requirements substantially similar to those set out in the loan contract have been fulfilled.

Poverty-targeting and social sector classification:

This operation does not qualify as social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI). Nevertheless, the basic infrastructure rehabilitation projects to be financed through this program will help to revitalize the economy, thereby reducing poverty indices and improving the quality of life of the people of Haiti.

Exceptions to Bank policy:

To guarantee that the program has impact in the medium and long term, it is proposed that authorization be given for the program to grant authorize that the program grant financing for routine maintenance of infrastructure works.

To assist the borrower in fulfilling the conditions precedent, it is suggested that a special disbursement of US\$1 million be authorized to facilitate the initiation of the operation, before all of the general contractual conditions are fulfilled (see Special Contractual Conditions above).

Procurement:

Contracting for basic infrastructure works must follow the Bank's procurement policy and procedures. International competitive bidding is required for procurement financed wholly or in part with loan resources when the amount exceeds US\$1 million for the construction of works, and US\$200,000 for the procurement of related goods and services and for contracting consulting services. National legislation will apply for procurement in amounts below these thresholds. However, given the peculiar nature of this program, the executing agency and the Bank may agree to other procurement conditions and procedures provided that they conform to Bank procurement policy.

Coordination with other multilateral agencies:

The program should help encourage other international organizations to take part and serve to channel resources for rehabilitation into the country's basic economic infrastructure. During the preparation phase, contacts were made with the European Community and CIDA, which finance certain infrastructure projects as well as the International Financial Corporation (IFC), which is considering financing the establishment of a free trade zone in Ouanaminthe (see paragraph 1.23).

I. BACKGROUND

A. State of basic economic infrastructure

- 1.1 The Republic of Haiti faces serious challenges in improving both the quality of life for its people and its social, environmental and economic indicators. One of the main factors that hinders economic recovery and reduces Haiti's international competitiveness is the poor state of its basic economic infrastructure, which has deteriorated to critical levels. This is a result of the almost total lack of maintenance and investment in rehabilitating, renovating, and improving public service infrastructure. There are no public funds available for maintaining basic infrastructure and the public investment budget is practically non-existent. With a tax burden representing eight percent of GDP and annual per capita income of US\$480, yearly government spending per inhabitant is only US\$38, most of which is allocated to recurrent expenditure. This situation has persisted since the 1980s and has been aggravated by repeated interruptions in the flow of external financing.
- 1.2 The poor state of the country's basic infrastructure constitutes a problem for all economic sectors. The roads are in terrible condition owing to an almost total absence of investment and maintenance and an inability to monitor vehicle weight to ensure compliance with road specifications. Pavement has been worn away on the vast majority of intercity roads and city streets; there are no bridges over many rivers and ravines and no protection for riverbanks, drainage ditches and innumerable concrete structures (intercepting ditches, sewers, etc.) Main roads have been encroached upon by city construction, where the right of way has been ignored and in many cases drainage ditches have been obstructed. During the rainy months, access by land to vast regions of the country is cut off.¹
- 1.3 There are serious deficiencies in terms of urban infrastructure (slaughterhouses, marketplaces, industrial parks) and rural development works (hydraulic management, irrigation ditches, quarantine stations).² The country's ports are in need of various types of repair and are among the most expensive and inefficient in all the Caribbean. The Port-au-Prince and Cap Haïtien airports' runways and threshold approaches need major repairs and the terminals and perimeter protection need improvement. The fixed-line telephone network provides only minimum coverage (Haiti has 20.74 telephone lines per 1,000 inhabitants, while the Latin American and Caribbean average is 326.35). Mobile telephone coverage is very limited.

¹ The Bank has reformulated the Secondary and Tertiary Roads Rehabilitation and Maintenance Program (Loan 991/SF-HA) in order to support urgent rural roads rehabilitation activities.

² The Bank is preparing the Agricultural Intensification Project (Project HA-0016) in order to rehabilitate and expand the irrigation system in the Artibonite Valley.

- 1.4 Haiti's power sector is on the verge of a systemic collapse in terms of production, transmission, residential distribution, and commercial management. The tangible consequence is service rationing of up to 21 hours per day in some of the capital's neighborhoods. In other regions of the country, there has been no power for months. The level of losses (technical and non-technical) lies at about 60% of production. With barely 172,000 registered customers, only one of every ten potential consumers is effectively an Electricité d'Haïti (EdH) subscriber and pays for power service.
- 1.5 Haiti is not only affected by the poor condition of its productive infrastructure, but also, in broad terms, by the condition of all physical infrastructure necessary for economic recovery in the short term, including drinking water and sewer systems, solid waste management, and garbage disposal. Only 46% of the urban population has access to drinking water (LAC=86%) and barely 50% has access to sanitary facilities (LAC=86%). In rural areas, where the majority of the population lives, shortages are even greater.³ Where it does exist, service is erratic and does not meet international quality and hygiene standards.

B. Agencies and institutions

- 1.6 "Basic economic infrastructure" is a cross-cutting concept that includes physical works necessary for providing public goods and services in different economic and productive sectors as well as the institutional and financial arrangements necessary for their sustainable management and upkeep. Administrative authority for ensuring planning, funding, construction, maintenance, and management of the country's basic economic infrastructure is therefore spread amongst several government agencies in different sectors. The main institutions involved are the Ministry of Planning and External Cooperation (MPCE), the Ministry of Economy and Finance (MEF) and the Ministry of Public Works, Transportation and Communications (MTPTC). In specific areas, the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR—rural development works, hydraulic management, irrigation ditches, quarantine stations), the Ministry of Commerce and Industry (industrial parks, markets, mail service), and the Ministry of Tourism (rehabilitation projects for facilities associated with tourist attractions) also play a role.⁴ Also involved are several public enterprises and national, semi-autonomous entities, most notably, Electricité d'Haïti (EdH), the National Port Authority (APN), the National Office of Civil Aviation (OFNAC), the National Drinking Water Service (SNEP) and the Autonomous Metropolitan Drinking Water Plant (CAMEP).

³ The Bank has reformulated the Potable Water and Sanitation Sector Reform and Investment Program (Loan 1010/SF-HA) to support this sector.

⁴ Social infrastructure is primarily the responsibility of the Ministries of Public Health and Population (hospitals, health centers) and of National Education, Youth and Sports (schools, libraries).

- 1.7 There is little decentralization in many areas, and responsibility for investment in and maintenance of local infrastructure falls to the national authorities, as in the case of city streets. Generally speaking, local authorities lack their own resources for promoting infrastructure projects, so in order to execute them, they have to get those projects included in the national government's set of funding priorities.
- 1.8 There are other agencies involved in management activities that answer directly to the Office of the President (e.g. the National Equipment Center, which directly manages public works projects), or the Office of the Prime Minister (e.g. the Central Managing Unit (UCG), which was created to manage the PURE I and II loans, and still exists though it has had no apparent functions since those loans were terminated). International agencies have also fostered the creation of various ad hoc executing units to carry out their projects and perform public functions. Although this is a strategy that can be justified in the short term (see paragraphs 1.17 and 1.18), it becomes an obstacle to institutional strengthening when not accompanied by a clear strategy to return responsibilities to the competent authorities in the medium or long term.
- 1.9 Public agencies have little ability to exercise their authority, which constitutes a serious obstacle to executing any project in Haiti. Political instability and the ongoing economic crisis have led to the closure and dismantling of many public offices and agencies. The government has lost many professionals and specialists due to low salaries, an unstable job market, and the politicization of the civil service, lowering the average skill level and overburdening the remaining civil servants. The government's economic and technological resources are equally limited. Furthermore, the public sector suffers from severe limitations to its ability to execute and oversee public investment activities, particularly in the areas of contracting and procurement, budget execution, external auditing and project monitoring and evaluation.
- 1.10 Haiti has an Economic and Social Assistance Fund (FAES), financed with resources from international agencies and donors, which specializes in supporting small-scale social infrastructure projects (generally < US\$75,000) involving a community participation methodology. Given the weaknesses of line ministries, the Government of Haiti has been using the FAES as a basic tool for executing small social and economic projects directed at the poorest segment of the population and the country's most remote areas. The FAES has an acceptable performance track record as well as a reputation for efficiency and good management where it has intervened.⁵
- 1.11 There is a similar tool for channeling international donations into infrastructure projects: the "PL-480 Title III Management Office." USAID initially required the

⁵ The Bank is preparing the Local Development Program (HA-0079) in order to fund small community interest projects through the FAES.

Haitian government to create this office during the 1980s in order to administer programs for magnetization of food donations. With the proceeds from monetization, the BG PL-480 funds different types of projects, including some infrastructure works. Although other international donors have monetized their aid through the BG PL-480, it is designed to respond to the needs and priorities of USAID and has limited flexibility in terms of adapting to the Bank's operational needs.⁶

C. Country rationale

- 1.12 Rehabilitating basic economic infrastructure is a prerequisite for laying the groundwork for the country's economic recovery. The dismal state of Haiti's basic infrastructure generates high transaction and operating costs that prevent Haitian companies from competing internationally or even domestically. One long-term solution would involve an in-depth restructuring of each and every one of the sectors involved as well as a possible reorganization of different government agencies and enterprises. This is the only way to secure the continued capital flows and the well-rooted culture of maintenance required for the modernization and sustainability of infrastructure.
- 1.13 The current political situation is not conducive to a dialogue about sector restructuring and a reorganization of the State. However, there is a growing willingness on the part of the government and public institutions to engage in the modernization process. The operation will allow for rehabilitation of individual infrastructure works in the short term with a view to restoring them to an operational level and setting the stage for a recovery in private sector activity. This would reestablish a system of uninterrupted services to the population, thus laying the groundwork for a national debate about what the system should look like in the long term.

⁶ The BG PL-480 has worked with other donors (not multilateral banking institutions), with the prior consent of USAID in accordance with basic conditions and operating regulations not subject to negotiation. Although donors can define the terms of their trust, there are sectors excluded by USAID, for example, primary road systems. USAID controls the appointment of the director of this office and the group of eligible consultants. It gives its nonobjection to projects approved by the Management Council and funds 70 percent of operating costs (the remaining 30 percent is the Haitian government's contribution, cofinanced in its entirety by Japan). The BG PL-480 is under the auspices of the MPCE, and its Management Council is comprised of different ministries. The BG PL-480 directly executes and funds projects presented by ministries or sector agencies, communities, and NGOs. Given that the program seeks to assist the ministries in doing their own contracting, the BG PL-480's methodology would not be consistent with the needs of the program.

D. Bank strategy for the sector

1. Transition strategy 2003-2004

- 1.14 Upon resuming its operations in Haiti in August 2003, the Bank developed a transition strategy with a one-year horizon. One of its pillars is to help to revitalize production and improve the community's standard of living. To that end, assistance is included for basic infrastructure development, agricultural revitalization, and social action programs, all of which lay the foundations for long-term development. This operation was included in the transition strategy as a mechanism for rehabilitating basic infrastructure and improving access to essential public services.

2. Bank experiences in the sector

- 1.15 In the framework of the Emergency Economic Recovery Program (known by its French acronym, PURE), directed by the UNDP to assist Haiti when democracy was restored there in 1993, the Bank prepared Loans 941 and 942/SF-HA (PURE I). The purpose of the loans was to fund projects to rehabilitate productive and social infrastructure in areas of agriculture, public health and nutrition, education, urban and municipal infrastructure, water service, sanitation and solid waste, ports, energy, and industry as well as to provide technical assistance and support the balance of payments. Later, in 1995, a second phase of the operation was executed, financed through Loan 962/SF-HA (PURE II). Although PURE II experienced delays because of a deepening of the political crisis in Haiti, the operations helped various basic infrastructure works become operational once more and undoubtedly had a positive economic impact during their execution.
- 1.16 Through these operations, the Bank has learned valuable lessons about multisector basic infrastructure rehabilitation operations. It should concentrate on medium-sized projects with a direct impact on productivity and private sector revitalization. More attention, and where possible, financing, should be channeled to maintenance of infrastructure works so that their operational aspects can be factored into the potential investor horizon. In order to avoid approval delays, the use of flexible project selection and prioritizing mechanisms during the execution phase is preferable to developing exhaustive lists while designing the operation. Finally, it is important that execution mechanisms not distort the long-term administrative structure. Given the fact that the use of ad hoc units is sometimes recommended due to the Haitian government's institutional weakness (see paragraphs 1.17 to 1.19), there must be a strategy in place from the very beginning to normalize the corresponding sector's institutional framework. These lessons learned from PURE I and II have been taken into account during the design of this operation.
- 1.17 The evaluation of programs in Haiti (CPE 2002) determined, in general terms, that there is a need to develop alternative means for providing services and executing projects given government agencies' limited management capacity, but without

prejudice to continued support for institutional strengthening and modernization efforts. Specifically, the use of project executing units and private firms as transition mechanisms has been suggested. There is a need to focus on project selection and set realistic and modest goals. The CPE underscores the importance of having mechanisms for coordination among the different government agencies involved in a project. All of these recommendations have been taken into account during the design of this operation.⁷

3. Experience of other multilateral organizations

- 1.18 The ongoing crisis in Haiti during the past years as well as the interruption in Haiti's debt service forced several international organizations to halt activities there. Before withdrawing, the World Bank supported several basic infrastructure projects in Haiti. These projects brought to light the institutional weaknesses of government agencies and encountered problems such as the use of funds for activities not included in the original project, lack of transparency in procurement, difficulty in securing political support for long-term reforms, a failure to implement institutional reforms, lack of familiarity with accounting and auditing procedures, cost overruns, minimal coordination among government agencies, etc. As a transitional formula for implementing loan projects and surmounting some of these difficulties, the World Bank agrees that it is important to have ad hoc project management units, while warning that the ongoing crisis and recurring instability have blocked long-term efforts to reduce dependency on such units.⁸
- 1.19 The World Bank has included Haiti in the list of LICUS countries (Low-Income Countries under Stress), underscoring how weak its institutions are. This situation demands that reliance upon the government as a provider of services be minimized and alternative means be sought for providing goods and services so as to ease the government's burden and allow it to concentrate on its primary functions and make progress in institutional strengthening.⁹
- 1.20 One of the few projects that has met with relative success is the Canadian International Development Agency's (CIDA) technical assistance project for managing electricity service in the city of Jacmel. Thanks to this project, Jacmel is the only city in the country with uninterrupted electrical power. As a result of this and of better business management, the collection rate has increased and the level of technical and non-technical losses has decreased significantly. The money collected in Jacmel is not paid to EdH, but is used for maintaining and rehabilitating electrical infrastructure and equipment in the city of Jacmel itself. Operating costs,

⁷ OVE, Country Program Evaluation Haiti, document RE-274, 11 December 2002, page iv.

⁸ Haiti Country Assistance Evaluation, World Bank Report No. 23637, 12 February 2002, paragraphs 2.21 and 2.22.

⁹ World Bank Group Work in Low-Income Countries under Stress: A Task Force Report, page iv.

including employee salaries, are paid entirely by EdH; this constitutes a significant subsidy for the functioning of the project, which makes its long-term sustainability questionable. The lesson to be drawn from this project is that more important than the works themselves is the continual flow of goods and services to which the works should contribute. Only that can create a sense of ownership among users and beneficiaries of basic infrastructure, which is the best way to guarantee its sustainability.

E. Program strategy and contact with international agencies

- 1.21 In designing the program, the following elements were taken into account: the limited information available about the country's priorities and needs; the narrow window of opportunity available for securing parliamentary approval of new loan operations during the current legislative session; and, the importance of handling a cross-cutting problem in such a way as to not obstruct, but rather lay the groundwork for, sector reform. The program thus seeks to deploy a financial instrument that can adapt to needs and priorities detected during the execution phase. The program has mechanisms for drawing lessons from project performance and gradually incorporating them in order to improve effectiveness. The institutional arrangement will favor coordination among government authorities in exercising their functions under law so that it will be compatible with institutional strengthening efforts in the long term.
- 1.22 The program should help encourage other international organizations to take part and serve to channel resources for rehabilitation into the country's basic economic infrastructure. Once it has been completely conceptualized, the program will be presented to the international banking and donor community in order to actively attract resources to it.
- 1.23 During the program's preparation phase, contact has been made with the European Community and the CIDA, which are financing some infrastructure projects, as well as with the International Finance Corporation, which is considering financing the creation of a free trade zone in Ouanaminthe. The FAES and BG PL-480 have also been contacted to identify channels of communication and complementarity between the program and the work of those organizations.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program seeks to spur economic recovery and to improve the quality of life for the population through the rehabilitation of basic economic infrastructure in geographic areas with high economic potential such that the public goods and services supported by infrastructure can be restored and incorporated into the investment horizon of the private sector, thus ensuring the availability of this infrastructure on a continuous basis.
- 2.2 To accomplish this aim, the specific objective will be to design, develop, and implement a transparent, flexible mechanism to channel resources for rehabilitation of basic economic infrastructure works for public services in a poor state of repair that are likely to have a high impact on revitalizing the local economy, and to ensure the operation, maintenance, and sustainability of these infrastructure works.
- 2.3 The program's beneficiaries are the users of public goods and services. They will benefit from shorter transaction times and costs, greater continuity and reliability, and qualitative improvements in the delivery of public goods and services.

B. Program structure

- 2.4 The program will fund two components:

1. Basic Economic Infrastructure Rehabilitation Facility (US\$63.6 million)

- 2.5 This component will provision a Basic Economic Infrastructure Rehabilitation facility for providing resources to ministries and line agencies to contract the repair, overhaul, or improvement of basic economic infrastructure, giving priority to projects, which make a large impact on revitalizing the local economy. Medium-sized projects (US\$200,000 to US\$1.5 million) that can restore or improve the provision of public goods and services will be funded. The facility will be set up by the executing agency at the beginning of the program through an account opened with Banque de la République de Haïti (BRH).
- 2.6 In order to respond flexibly to Haiti's needs and priorities, the facility will have a **multisector scope**, so that it will theoretically be able to finance projects for rehabilitating the country's economic infrastructure in sectors such as transportation and communications (ports, airports, passenger and cargo terminals, vehicle weigh stations, bridges, and roadway infrastructure), urban construction works (slaughterhouses, marketplaces, industrial parks), electrical power infrastructure (subject to written agreement between the MEF and the Bank), water management (irrigation ditches, basin protection) and rural development (quarantine stations,

collection centers). The facility will also be able to support individual projects involving drinking water (not included in the context of loan 1010/SF-HA), sewer systems, and solid waste management, which have a direct impact on the local economy.

- 2.7 The resources under this component would be committed in three equal **tranches**, each tranche corresponding to a stage of the program. This mechanism will limit the operation's implicit risks given that it will allow for smaller and more manageable investment plans and avoid overloading the institutional apparatus, since the workload will be distributed more evenly throughout the program. Dividing the program into three stages will enable it to speed up project start-up, despite limited knowledge about the country's needs, priorities and capacity, as it will use provisional institutions and mechanisms that will be steadily improved, strengthened, and possibly repositioned as lessons learned from the program are incorporated into the next stage. This division also provides an incentive for government agencies to actively contribute to meeting the program's objectives, since the availability of resources for each stage would be contingent upon satisfactory performance in the previous one.
- 2.8 Once the conditions contained in paragraph 3.11 have been fulfilled, the executing agency may start committing resources for the first phase of component I.
- 2.9 The availability of component I's second and third tranches will be contingent upon: (i) the commitment of at least 90% of the previous tranche to financing eligible projects; (ii) the disbursement of at least 50% of the previous tranche; (iii) the implementation, to the Bank's satisfaction, of the recommendations agreed on between the Bank and the MEF, on the basis of the performance review of the previous stage; (iv) the submission of an investment plan representative of the respective stage's projects; and (v) the extension of TPM services, with the appropriate changes, or the implementation of a comparable support mechanism, in accordance with paragraph 3.7. The availability of the second and third tranches would be announced in both cases by the Manager of Regional Operations Department 2 at the executing agency's request.
- 2.10 Bearing in mind the limitations indicated in paragraph 1.21 and given the program's characteristics, it is impossible to create an exhaustive catalogue of all the projects to be financed with loan resources in advance. Hence, a representative sample of projects to be funded with the first tranche has been defined along with simple eligibility criteria, which will enable the projects to be funded during the program to be selected.
- 2.11 During the program's preparation phase, a **sample of projects** was defined together with the Haitian government. These represent the type of projects to be financed with the first tranche and work can be contracted as soon as the program's

institutional framework is established and implemented.¹⁰ Preinvestment studies (design, budget) have not been completed for the sample projects, and can be updated and completed, using program funds. The environmental analysis of the above projects is currently being done with Bank resources. The list of works selected for the representative sample under the first tranche is attached as Annex II.

- 2.12 In addition to the sample projects, funding will be provided for rehabilitation projects selected in the course of the program that are similar to the sample projects, and satisfy **technical eligibility criteria** of the program, which will be incorporated into the Operating Regulations, with indicators for ranking the proposals on the basis of: (i) economic importance; (ii) investment sustainability; (iii) sector and regional coherence; and (iv) environmental sustainability. Projects will have to meet certain minimum levels to qualify in each one of the different qualification categories in a three-tiered, qualitative scale (unacceptable, acceptable, and best practices):
- (i) The analysis of economic importance should reproduce, in simplified form, the guidelines for cost-benefit analysis. Tables of previously identified benefits will be created using a qualitative scale. The cost of alternatives will be assessed based on a study of unit costs. This study will enable the project's expected effects to be established in terms of attracting productive investment and revitalizing the local economy. The projects should be self-contained, in the sense of producing their own benefits, independently of complementary projects. The results of the economic importance analysis should be coordinated with the results of the socioenvironmental analysis shown below (point iv).
 - (ii) The projects to be evaluated should include an investment sustainability plan. Given fiscal constraints in Haiti, this would mean giving preference to projects involving the organized efforts of residents, users, and beneficiaries of the project and/or a contribution from local governments to the construction, management, and maintenance of the works, e.g. through cooperatives or community work models that have been tried in the field. These project operation and maintenance models may be financed with program resources (see paragraph 2.19).
 - (iii) Grading the degree of sector coherence for a project encourages structuring plans within the respective ministries and municipal governments. It will be very important for the country to provide assistance through technical cooperation for the ministries and line

¹⁰ The MEF, MPCE, MTPTC and APN participated in the definition process. Priority was given to the projects included in government agencies' programming and for which preinvestment studies are available.

agencies in order to determine sector needs and priorities and thus facilitate planning.

- (iv) As in the case of the economic impact assessment, a simplified methodology for socioenvironmental analysis of projects will be developed based on experience gained through the environmental analysis of the sample projects. This simplified analysis should include surveys taken among community members, beneficiaries, and users of the works in order to establish acceptance and generate a feeling of ownership.

- 2.13 Facility resources will be available to the ministries and national, decentralized government agencies¹¹ responsible for implementing, managing, and maintaining the country's basic economic infrastructure (see paragraph 1.6);¹² these will be able to request funding for projects included in their list of priorities. To be eligible to participate in the program and have access to financing from the facility, line agencies will be required to sign a **memorandum of understanding** (MOU) with each MEF, in which the logistical details of participation are regulated in accordance with the Operating Regulations and subject to the Bank's nonobjection.¹³
- 2.14 The MOUs signed with the entities in charge of agriculture, sanitation, and water supply and in other cases as agreed by the Bank and the Haitian authorities, will also include **institutional indicators** that will constitute basic targets of the tariff

¹¹ Projects are not expected to be presented by territorial authorities (departments, municipalities) in phase one of the program. Generally speaking, such financing would be viable only if a credible commitment to investment implementation and maintenance is made and assistance in preparing the proposals is given to territorial agencies. There is no accurate information on the fiscal situation, management capacity, and municipal contracting rules. Funding territorial agencies' projects could possibly be defined in the framework of the reforms resulting from performance reviews of the second and third phases, once the program is off the ground. In that case, one would expect an enormous amount of additional work to fall on the shoulders of the TEU and the TPM to promote the program with the municipalities, identify and prioritize local needs with the community, evaluate the potential for using the communities to execute some infrastructure projects and do other work. Without this work, feasible municipal projects will probably not appear or will be given only perfunctory analysis or funding.

¹² Given that some of the line agencies in these sectors enjoy budget independence and autonomy, the Haitian government should create budget compensation mechanisms for the provision of program resources in case that is necessary pursuant to the rules governing budgets in Haiti. These compensation mechanisms should be included in the MOUs signed with regard to the participation in the program of the agency in question.

¹³ Logistics includes, among other things, identifying tasks and authority of liaison officials, the mechanism for identifying specific needs in terms of support and consultants for the transfer of know how and to provide specific assistance in preparing projects and carrying out the program tasks themselves, making a commitment to set up and/or maintain a contracting unit capable of handling bidding and contracting, providing monitoring and supervision of project implementation and delivery, provisions for the flow of information and funds, support documentation for contracting, and the obligation to allow the Bank and auditors access, etc.

structure, management, maintenance and financial sustainability of the infrastructure works within their purview, institutional management and modernization and basic sector policy guidelines applicable to the respective government agency and to be complied with during the stage corresponding to the tranche concerned. The degree to which institutional objectives are met will determine the level of financing that is available under subsequent tranches. To ensure that this program is consistent with other Bank initiatives¹⁴, the Bank will be actively involved in establishing commitments and institutional indicators through the Country Office in Haiti, with the support of the Regional Operations Department 2 division in charge of the corresponding sector and the Finance and Basic Infrastructure Division (RE2/FI2). It is recommended that the country arrange for Bank support for the line agencies in meeting the objectives contained in the institutional indicators through specific institutional strengthening projects.

- 2.15 Responsibility for providing strategic guidance for the program will fall to the Ministry of Economy and Finance, which will validate at the highest political level the investment plan adopted by the institutions in charge of implementing the program and administering the Facility. Strategic guidance will ensure that the projects proposed by different ministries and line entities are socially, economically, and regionally consistent and that they conform to government policies. To make the program more effective in its contribution to economic revitalization, the strategic guidelines could include targeting geographic areas with high economic potential for attracting private, domestic, and international investment
- 2.16 The projects to be financed in each tranche must be included in an **investment plan** prepared in accordance with the procedures and deadlines set out in the Operating Regulations. The inclusion of projects in the investment plan will call for the Bank's nonobjection. The following steps outlined in the Operating Regulations must be followed in establishing the investment plan for each tranche:
- a. The Operating Regulations will set out the eligibility criteria and the application protocol.¹⁵ The TEU, with the support of the facilitator/TPM, will prepare instructions on how projects are to be presented by the line ministries and will organize workshops with the officials in charge of organizing the proposals to clarify the eligibility criteria and the steps in processing proposals.

¹⁴ Particularly projects in preparation such as the program for investment in water and sanitation and reform of the sector (HA-0014) and the program to revive agriculture (HA-0016).

¹⁵ The application protocol will simplify efforts to determine the types of projects that the financing is targeting and those projects that are ineligible. The first step in the protocol will be to filter out projects that by their nature are ineligible for financing and to return proposals that are incomplete or improperly processed with a letter of explanation and to make specific recommendations on how they may be corrected. The next step will involve applying the procedure for eligibility to determine whether or not the project is eligible for financing under the Facility.

- b. On the basis of the protocol for applying eligibility criteria, the line entities will preselect projects from the pipeline that are, in their judgment, likely to qualify for financing and that meet the ministry's priorities for the sector. Proposals must be presented to the TEU for evaluation by the quarterly deadline stipulated in the Operating Regulations. The Regulations will indicate the formal requirements for the request and the annexes that are needed (project profile, feasibility study, predesign studies, itemized budget for the project). Once a project has been submitted to the TEU for consideration, it is assumed that the presenter has agreed to its inclusion in the investment plan and to be bound by the obligations arising therefrom.
 - c. The TEU will forward all proposals received to the Temporary Program Manager (TPM) for evaluation in accordance with the program eligibility criteria and the application protocol. The TPM will issue an opinion as to whether the project is eligible. If the project is considered eligible, it may be resubmitted for evaluation but not until the following session, together with a note explaining what changes have been made to make the project now viable.
 - d. Once a project has been selected, the TEU will inform the local authorities and insofar as is possible the neighboring and user communities that stand to benefit from the project, making available the project documentation. The TPM will provide advisory assistance to the TEU on mechanisms for encouraging community involvement to generate a sense of ownership amongst members of the community, users, and beneficiaries.
 - e. The TEU will include all eligible projects in the quarterly investment plan. If the cost of the projects submitted exceeds the resources available under the tranche, priority will be given to those projects with the highest ranking in best practices. The remaining works will be financed under the following tranche without repeating the selection process. The investment plans will require the Bank's nonobjection.
- 2.17 Once a project has been approved for inclusion in the investment plan, the TPM will commission the remaining designs and studies with funds from the preinvestment window and lend technical support to the line agencies in selecting contractors who will be awarded the projects by means of a competitive process (i.e. competitive bidding, inviting the firms registered in the TEU's contractor registry). Contracts to execute the projects will be signed by the line agency under the supervision and coordination of the TEU and with the support of the TPM. Technical inspection and oversight during project implementation will correspond to the ministry or line agency,¹⁶ with the technical support of the TPM and

¹⁶ At the request of the Haitian authorities, the Bank will determine whether assistance should be granted to line agencies through technical cooperation program for developing capacity for project supervision, if so required.

inspections by the latter.¹⁷ The TEU will be responsible for the financial management of resources and overall coordination of the project.

- 2.18 The TPM and ministry or line agency will also define the **management and maintenance plan** for the projects to be financed such that their sustainability is guaranteed for a minimum of four years from the date of delivery. Priority will be given to the use of participatory mechanisms for maintaining and managing works, which will foster a sense of ownership among neighbors, users, and beneficiaries. Defining the management and maintenance plan will be a prerequisite for funding the project.
- 2.19 When so agreed with the respective line agency, facility resources may be used for financing the implementation of the project management and maintenance plan. Financing may not exceed 100% in the first year, 50% in the second year, and 25% in the third year (see paragraph 5.2), and will not be provided after completion of the program. The ministry or line agency should commit to providing the remainder during the four years that the management and maintenance plan is in effect. Institutional indicators should include indices of compliance with the agreed upon plans. The Bank and the MEF will agree on procedures for hiring labor for the tasks of maintenance, as necessary in accordance with maintenance and management plans.
- 2.20 The evaluation of projects submitted by ministries or line agencies will include an investment sustainability analysis (see paragraph 2.12(ii)) that should enable projects which guarantee sustainability and reliable maintenance plans to be given priority. In urban infrastructure and rural development works (markets, slaughterhouses or irrigation ditches), priority will be given to management and maintenance plans that involve neighbors, users, and beneficiaries in management and for which service fees and user contributions are allocated to the maintenance and improvement of the infrastructure. In the case of road projects, this guarantee of sustainability could be given when the Ley de Fondo de Mantenimiento Vial (Road

¹⁷ The tasks of inspection entail verifying whether financial requirements have been fulfilled, commitments to technical quality, and periodic assessments that are needed to ensure that the works satisfy contractual commitments. The project budget will also be monitored as will the rate of advance of the project in terms of schedule and budget. The inspector will also verify that supervision by the line ministry employ the minimum resources for proper quality control of the works and that its technical development is in line with costs of supervision (for instance to ensure that the project has a qualified resident engineer and not simply a foreman or work superintendent).

Maintenance Fund Act, recently passed by the Haitian parliament)¹⁸ becomes effective.

- 2.21 The facility will also finance all environmental and social impact mitigation measures identified in the environmental and social management plans and, when necessary, fund broader complementary environmental and social impact assessments (ESIAs). A specific budget item entitled “**Environmental and Social Mitigation Costs**” should be included in each project’s budget and in the terms and conditions for contractors.
- 2.22 The institutional framework and operational methodology described above, which are based on the Bank’s best understanding of the country’s needs, priorities and capabilities, are considered to be provisional and will be used for selecting projects to be funded with the first tranche (in addition to the sample of projects in Annex II). They will make it possible to begin operation in the short term (6 to 9 months) and commit a large percentage of resources from the first tranche (i.e. grant the appropriate contracts) in the following 12 to 18 months.
- 2.23 When 90% of the proceeds of the first tranche has been committed, or when 50% has been disbursed, whichever occurs first, a **project performance review** will be performed to establish the methodology’s effectiveness and refine it in order to incorporate lessons learned that will improve the program’s performance during the second stage. Such a review will be repeated when 90% of the proceeds of the second tranche has been committed, or when 50% has been disbursed, whichever occurs first, to refine the mechanism once again for the third stage. These review and reengineering targets will also make possible an evaluation of the type and scale of the projects to be financed, the program’s institutional framework, including the executing unit’s place within the country’s institutional structure, participation by other national entities and the program’s compatibility with long-term institutional strengthening efforts. Once the timetable for the operation and evaluation of the program is defined, there should be no interruptions to operations (see paragraph 2.30).
- 2.24 If, within 18 months after commencement of any tranche, the conditions relating to the performance evaluation have not all been fulfilled, the Bank and the executing agency will need to review the reasons why the program has been delayed and agree upon corrective measures.

¹⁸ The Road Maintenance Fund Act (FER) was published in the Official Gazette (Le Moniteur) on 24 July 2003. The Law created the Fund, a financial agency with permanent legal standing that is financially and administratively independent. The FER collects, administers, and controls funds for preventive maintenance of the eligible road network. The Law identifies a number of sources of financing for the FER and the funding received will be used for road maintenance (two gasoline taxes, give vehicle taxes, cigarette taxes, tax on alcoholic beverages, driving licences and passports, and user charges).

2. Administration, auditing, evaluation, and monitoring (US\$8.6 million)

- 2.25 This component will finance various activities aimed at guaranteeing the transparency and sound management of resources, the technical quality of projects, and project implementation, as well as evaluating the program's performance and outcomes.
- 2.26 The proceeds of the loan will be used to finance the establishment of the TEU and to hire private consultants as TEU Director, a financial and accounting specialist, an engineer, and support personnel. If necessary, the financing will also be used to engage consultants for specific support activities and for transfer of know how to the ministries and line entities to assist with the preparation of projects and to carry out program tasks themselves.
- 2.27 As a way to compensate for the institutional weaknesses of participating agencies and to transfer know how to them, the loan will be used to hire a firm or consortium to serve as the Temporary Program Manager (TPM). Under the supervision of the Director of the TEU, the TPM will assist the TEU and the ministries and line entities with the day-to-day management of the program. The TPM will be selected through international competitive bidding.
- 2.28 In order to guarantee sound management and transparency in the administration of program resources, all contracts and expenditures will be subject to an external audit performed by an independent public accounting firm acceptable to the Bank that will be selected in accordance with current Bank procedures (see paragraph 3.30).
- 2.29 To help the borrower fulfill the conditions precedent to disbursement so that the operation can start up more expeditiously, financing will be provided to engage an individual consultant to assist the executing agency as **temporary facilitator** in implementing the program. The temporary facilitator, who is expected to be hired within four to eight months' time, will perform the following tasks: (i) review the Logical Framework and analyze performance indicators and objectives to be met; (ii) help the executing agency set up and organize the TEU; and (iii) prepare the terms of reference for hiring the TPM and assist the executing agency in selecting and hiring the TPM; (iv) assist the executing agency in selecting the outside auditing firm; (v) assist the executing agency in reviewing the Operating Regulations; (vi) assist the executing agency in preparing the initial activities plan and in preparing the chart of accounts; (vii) assist the executing agency and line agencies in performing the preinvestment activities for the sample projects in Annex II; and (viii) assist the executing agency in preparing and reviewing the program environmental management strategy and environmental analysis; (ix) preparing and organizing the kickoff workshop; (x) promoting the program amongst the ministries and line agencies so that new projects will be submitted for consideration during the first phase of the program, and verifying the availability of

project studies, designs, and budgets for each; (xi) assisting line agencies in preparing bidding documents for the sample projects as well as other projects to be considered during the program's first phase; (xii) assisting the executing agency and line agencies in setting up the contractor registry; (xiii) evaluating maintenance programs and commitments for the initial works, ensuring that they meet all established criteria; (xiv) assisting the executing agency in preparing the MOUs for the line agencies whose works have been included in the sample; and (xv) assisting the executing agency and line agencies in identifying community participation mechanisms.

2.30 Using program resources, the TEU will engage consultants to conduct program performance evaluations (see paragraph 2.23). During the first and second tranches when 90% of the proceeds of each tranche has been committed, or when 50% has been disbursed, whichever occurs first, a performance review will be performed, financed with loan resources, to examine the performance of the program and its institutions, the funded works' impact on development, and progress made in the institutional strengthening of participating agencies.¹⁹ Performance reviews will translate into recommendations on modifications to program procedures, mechanisms, and institutions that are needed for guaranteeing that objectives are met, efficiency is improved, and the program and its institutions are compatible with Haiti's long-term institutional framework such that permanent distortions in the state's performance and organization are avoided. The performance review will also serve to determine the progress line agencies have made in meeting institutional objectives. Verification of performance review recommendations being adopted will further serve as the basis for declaring the availability of the subsequent tranche (see paragraph 2.9).

2.31 The evaluation of the third tranche will be performed when 90% of the proceeds of the tranche have been disbursed. This evaluation will enable the Haitian authorities and the Bank to ascertain whether the Facility should be continued as a permanent mechanism. The performance evaluation will include an assessment of the effects of the program as a whole.

C. Costs and financing

2.32 The program's total cost has been calculated taking into account the following cost estimates:

¹⁹ The terms of reference for the consulting firm that will conduct the performance review will be defined in each case by the TEU with the Bank's support and should have the Bank's nonobjection.

REHABILITATION OF BASIC ECONOMIC INFRASTRUCTURE			
Costs and financing (US\$ millions)			
Category	IDB	Local²⁰	Total
1. Rehabilitation Facility	57.5	6.1	63.6
1.1 Rehabilitation projects	46.5	3.5	50.0
1.2 Environmental mitigation costs	3.0	-	3.0
1.3 Maintenance plans	2.5	1.6	4.1
1.4 Preinvestment window	2.0	1.0	3.0
1.5 Project inspection and supervision	3.5	-	3.5
2. Concurrent Costs:	5.9	1.2	7.1
2.1 Start up facilitation	0.1	-	0.1
2.2 Technical Program Manager	2.5	-	2.5
2.3 Audits and evaluations	2.0	-	2.0
2.4 TEU and specific support for ministries and line entities	1.3	1.2	2.5
3. Financing Costs	1.6	0.5	2.1
3.1 Interest	0.9	-	0.9
3.2 Credit fee	-	0.5	0.5
3.3 Inspection and supervision	0.7	-	0.7
4. Unallocated	5.0	-	5.0
Program Total	70.0	7.8	77.8

- 2.33 The loan will be a multiproject program, divided into three stages corresponding to the three tranches. This ensures from the outset that the total commitment and indebtedness occurs within the window of opportunity presenting itself to the Bank and the authorities.
- 2.34 It will fall to the country to provide counterpart funding in the amount of US\$7.8 million, in accordance with the table of costs shown in paragraph 2.32. The portion payable in cash will be deposited in a special separate account with BRH. The Bank may recognize as local counterpart funding expenses up to a maximum amount of US\$300,000 equivalent that have been incurred between 21 August 2003 and the date on which the loan is approved by the Board of Executive Directors provided that requirements substantially similar to those contained in the loan contract have been fulfilled.
- 2.35 Various international agencies have been contacted for funding to cofinance a portion of the local counterpart contribution as well as to attract additional resources to be channeled through the program's mechanisms. This notwithstanding, the borrower assumes the obligation for supplying the entire local counterpart contribution.

²⁰ Expenses incurred in connection with taxes payable in the procurement of goods and services financed with program resources may be recognized as local counterpart funding.

- 2.36 If so requested by the Government of Haiti, the Bank will make every effort to identify technical-cooperation funding to cover part of the concurrent program costs and the preinvestment window. The resources so freed up will be used to finance additional rehabilitation works, the mitigation of environmental effects, maintenance plans, and contingencies.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The executing agency for the program will be the Ministry of Economy and Finance (MEF). Ministries and line agencies that have sector-level responsibility for investment in and management and maintenance of basic economic infrastructure works and sign a MOU with the executing agency will participate in program execution.

B. Program execution and management

- 3.2 A Technical Executing Unit (TEU) will be set up within the MEF to administer the program, and officials will be designed to liaise with the MPCE, the MTPTC, and the other ministries and line agencies interested in access to program resources. Both the TEU and the liaison officials will receive the necessary backing and be delegated the authority they need to carry out the program. The participation of these ministries and line agencies will be regulated through MOUs signed by the MEF and the corresponding ministry or line agency; these MOUs will be updated for each tranche to reflect any modifications made to procedures or institutional framework (see paragraph 2.13).
- 3.3 The TEU will be a small technical unit within the MEF that will serve as the coordinator of program activities, financial manager of the facility, and liaison among the participating entities. The Director of the TEU will be appointed by the MEF, with the Bank's nonobjection,²¹ and will enjoy sufficient powers, resources, and technical autonomy to discharge his functions. He or she will be assisted by a small team of financial specialists and administrative assistants.
- 3.4 The TEU's functions include: (a) contracting the TPM by means of international competitive bidding; (b) commissioning the external audit in accordance with Bank procedures; (c) with the support of the TPM, creating and updating a registry of contractors that are qualified to work on basic infrastructure rehabilitation projects; (d) submitting to the Bank for its nonobjection the projects in the investment plan for each tranche that meet the program eligibility criteria; (e) managing the program's finances, keeping all the accounts and records in accordance with generally accepted standards; (f) compiling and consolidating the records of eligible expenses that the line agencies participating in program execution have in their possession; (g) preparing program financial reports and submitting them to the MEF and the Bank; (h) making available to the external auditing firm all documentation and information it needs to conduct its work; (i) receiving the

²¹ In the event that financing is provided under the program the Director of the TEU will be hired in accordance with applicable Bank procedures.

- requests for financing from the line agencies and forwarding to the TPM those that satisfy the strategic program guidelines so that the TPM can determine technical eligibility; (j) reporting regularly to the Ministry of Economy and Finance on the progress of the program and making suggestions on improving implementation and strategic guidance; (k) contracting consultants for evaluation and monitoring; (k) preserving program institutional memory and producing regular activity reports for the participating entities and the public in general; and (l) preparing and submitting to the Bank periodic reports on the status of the projects financed under the program and the annual work plans for use of program resources.
- 3.5 The liaison officials will be designated by the Minister or head of the line entity and will have the authority that is needed to perform their tasks with program bodies in coordination with the respective ministries and line entities. In transferring know how and providing specific support to the ministry or entity for the preparation of projects and the implementation of program tasks, consultants may be hired out of program resources. Such consultants will be selected in accordance with Bank procedures and will report to the liaison official and to the TEU.
- 3.6 A TPM will be hired to provide support to the TEU and ministries and line entities. Its functions will include: (a) reviewing the requests for financing and determining the technical eligibility of projects in accordance with the criteria to be established, as well as assisting the TEU in ranking them in terms of priority; (b) reviewing and, if necessary, arranging for the technical designs required to carry out the projects as well as the socioenvironmental impact assessments; (c) estimating the cost of each project and its maintenance plan. These estimates will be used in allocating facility resources and in the subsequent contracting process; (d) defining the expected impact of each project in terms of the logical framework; (e) preparing and reviewing the project and disbursement timetables, so as to determine whether the project is on schedule and within budget; (f) assisting the TEU in designing, building, and periodically updating a contractor registry, which includes prequalifying firms; (g) assisting the line agencies with project contracting and defining the maintenance plan; (h) carrying out technical as well as financial and environmental oversight of project execution; (i) performing the final inspection, certifying delivery, and recommending final acceptance of works to the line agency; (j) establishing verification mechanisms for agreed-upon maintenance plans; and (k) from its inception, taking on the tasks scheduled for the temporary facilitator, if necessary; and (l) assisting the TEU in drafting progress reports for the Bank, mainly through information gathered from line agencies concerning the status of the projects and in preparing the annual work plans.
- 3.7 The contract with the TPM may be renewed for a period that is long enough to ensure that the proceeds of the first tranche are disbursed in their entirety. The contract may be renewed for either or both of the subsequent tranches provided a comparable mechanism acceptable to the Bank has been established to guarantee

the technical quality of the works, the efficiency of program management, and transparency in the use of program resources.

C. Operating Regulations

- 3.8 The program will be governed by a set of Operating Regulations, which will describe how the program functions, including, among others: (i) the technical eligibility criteria for projects and the application protocol; (ii) the procedures and deadlines for the line agencies' applications for inclusion in the investment plans; (iii) the nature of the prefeasibility studies; (iv) the project cycle; (v) the mechanisms for coordination between the ministries and line entities and the TPM; (vi) the mechanisms by which the proceeds of the loan are disbursed to the facility, (vi) the mechanisms for paying contractors and consultants hired with program resources; and (vii) the program environmental management strategy and the methodology for socioenvironmental analysis.
- 3.9 The final version of the Operating Regulations is in the process of being drafted. The Operating Regulations, which will require the Bank's nonobjection, will need to be in effect as a condition precedent to the first disbursement of the financing.
- 3.10 The Operating Regulations may be revised by the TEU and the Bank to make the program function more expeditiously as well as to reflect changes arising from evaluations. Any change in the Operating Regulations will require the Bank's prior nonobjection in writing.

D. Disbursements and payments

- 3.11 The Bank will declare the loan eligible for disbursement when the following conditions precedent have been fulfilled to the latter's satisfaction:
- (i) The general conditions precedent set out in the loan contract have been fulfilled;
 - (ii) The executing agency has opened with Banque de la République de Haïti two special, separate accounts, one for the loan resources and the other for the local counterpart funding;
 - (iii) The preinvestment works corresponding to the sample of projects listed in Annex II, including for each one an environmental analysis, have been updated and finalized;
 - (iv) The program environmental management study has been presented;
 - (v) The TEU has been established, organized, and physically put in place, and its core personnel has been selected (at least one financial specialist and an engineer);

- (vi) Personnel for the Temporary Program Management have been hired through a international competitive bidding process in accordance with terms of reference agreed on with the Bank;
 - (vii) At least one memorandum of understanding has been signed (see paragraph 2.13); and
 - (viii) The Operating Regulations agreed on between the borrower and the Bank have been adopted and are in effect.
- 3.12 To assist the borrower in fulfilling the conditions precedent and to facilitate the initiation of operations, the Bank may authorize disbursements in a maximum amount of US\$1 million provided that the requirements for disbursement contained in the loan contract have been satisfied and at least the following conditions precedent to the first disbursement have been fulfilled: (i) presentation of a reasoned legal report substantiating that the obligations assumed by the borrower are valid and binding; and (ii) one or more officials have been designated to represent the borrower in all acts relating to the performance of this contract, together with true samples of the signatures of these representatives; and (iii) accounts have been opened for the proceeds of the loan and the local counterpart funding. The disbursement aforesaid may be used to hire a temporary facilitator (see paragraph 2.29), preinvestment studies of the works contained in the sample, support for the establishment of the TEU, and any other expenses directly related to the first disbursement and implementation of the present operation.
- 3.13 Loan resources will be disbursed as a **revolving fund**. To this end, a special and separate bank account will be opened with the BRH, in which will be deposited a maximum amount equivalent to 5% of the resources of component II and 5% of the undisbursed balance of the funds for component I. The revolving fund will be replenished in accordance with Bank procedures. The local counterpart funds will also be disbursed into a special and separate bank account with BRH.
- 3.14 Payments for works, related goods and services, and consulting services constituting an eligible program expense will be made by the TEU. When the works, goods, and related services have been contracted by the line agencies participating in the program, these should request the TEU to pay the contractors.
- 3.15 The Bank will perform an ex ante review for disbursements. Once the first tranche has been disbursed in its entirety, the Bank and the executing agency will consider whether ex post reviews of disbursements are required and, if so, will agree on suitable terms and conditions.

E. Procurement of goods and services

- 3.16 Contracting for basic infrastructure works must follow the Bank's procurement policy and procedures. International competitive bidding is required for

procurement financed wholly or in part with loan resources when the amount exceeds US\$1 million for the construction of works, and US\$200,000 for the procurement of related goods and services and for contracting consulting services. National legislation will apply for procurement in amounts below these thresholds. However, given the peculiar nature of this program, the executing agency and the Bank may agree to other procurement conditions and procedures provided that they conform to Bank procurement policy.

- 3.17 To maximize the efficiency of contracting procedures and project execution, several basic infrastructure projects may be grouped together under a single contract, as long as the TPM deems it technically viable.²²
- 3.18 To foster transparency in the contracting process, the TEU will create and periodically update a registry of contractors that have been prequalified, with the support of the TPM, and with the Bank's nonobjection, based on criteria such as experience and technical and financial capacity²³. The registry will be open to construction firms from Haiti and the Bank's other member countries, and information on the registry will be published in local and international media or specialized journals.
- 3.19 The firms that will act as TPM and external auditor will be contracted in accordance with Bank procedures.
- 3.20 All figures will be in United States dollars (USD) as the benchmark currency and for payments made in Haitian gourdes (HTC) within the Republic of Haiti, amounts will be converted at the exchange rate in effect on the day of payment to the contractor.

F. Execution period and disbursement schedule

- 3.21 In a best-case scenario, the facility could begin committing resources within a period of six to nine months. With proper coordination between the participants, each tranche should be committed (i.e. contracts entered into for the projects included in the investment plan) in approximately 12-18 months. Given the scale of the projects, the execution period can be estimated at approximately 6-12 months plus the period envisaged for financing the maintenance plans. Thus, the proceeds will be committed within 48 months, and the deadline for disbursement of program resources will be 60 months from the effective date of the loan contract.

²² This is not to say that works may be broken up to fit the program's financing limits, since projects are required to be self-contained and must generate benefits on their own, independently of complementary projects.

²³ In general, satisfactory experience in carrying out similar work with financing from international institutions will be understood to be sufficient to qualify for the program works.

3.22 Table III-1 shows an estimated timetable of disbursements.

Timetable of Disbursements US\$ millions equivalent						
Source	2004	2005	2006	2007	2008	Total
IDB (FSO)	7.0	14.0	19.5	18.1	11.4	70.0
Local Contribution	0.8	1.5	2.1	2.1	1.3	7.8
Total Loan	738	15.5	21.6	20.2	12.7	77.8
%	10%	20%	28%	26%	16%	100%

G. Monitoring and evaluation

1. Monitoring by the Bank

- 3.23 The program will be monitored by the Bank's Country Office in Haiti with the support of the Finance and Basic Infrastructure Division of Regional Operations Department 2 (RE2/FI2).²⁴ At least two missions are planned each for program administration and monitoring.
- 3.24 Within the first 60 days of each calendar half-year period, the executing agency will submit to the Bank semiannual reports describing the extent to which contractual conditions have been fulfilled and the progress made in attaining the program indicators and targets outlined in Annex I (logical framework). The reports must provide information on the status of the facility, including accounting and financial information on the revolving fund, the actions and activities completed, outputs and targets attained, and the main constraints encountered and solutions proposed to resolve them, and the status of the procurement schedule. The report must be formatted in a manner agreed on with the Bank's Country Office.
- 3.25 Within 30 days after the semiannual report has been received, joint meetings of the executing agency, the liaison officials of the ministries and line entities, and the Bank will be held for the purpose of analyzing progress in implementing the program and progress with the current investment plan. These meetings will serve to review the accomplishment of goals, objectives, and indicators. The investment plan will be reviewed for the following tranche, specifying the goals to be achieved, as well as any corrective measures that may be required and/or may be contained in the performance reviews.
- 3.26 On the basis of the semiannual reports and meetings, the executing agency will submit to the Bank by 15 November of each year of the program, for the latter's nonobjection, the annual work plan for the following year, outlining the activities to

²⁴ Given that this is a multisector operation, issues that involve subject matter in which other divisions specialize will be addressed in coordination with the respective division.

be carried out and the targets to be met for the approved investment plan, including the procurement schedule and projections for the program to its completion.

- 3.27 In the event that the Bank should encounter deficiencies in program execution, the executing agency will need to submit a proposal to the Bank within 30 days following the date of the meeting containing corrective measures and a schedule for their implementation, the progress of which will be reviewed during the administration and monitoring missions.

2. Annual Maintenance Reports

- 3.28 The ministries and line agencies taking part in the program are to submit to the Bank, through the executing agency, an annual maintenance report for the basic infrastructure in their area of responsibility. The terms of this report will be agreed upon together with the Bank and stated in the MOU signed by the MEF and the respective entity. This report will be submitted within the first quarter of each year for the previous year, during the program's execution period and during the five years following the date of the last disbursement, with the aim of evaluating the strategy and level of maintenance activities and stimulating a culture of maintenance.
- 3.29 The annual maintenance report will contain, at a minimum, the following elements: (i) general information about the structure and responsibility of the entity(s) or unit(s) in charge of maintaining the infrastructure in that sector, number and type of personnel assigned, nature and quantity of maintenance contracts awarded, potential capacity for direct execution and available equipment; (ii) an evaluation of the execution of the previous year's maintenance plan; and (iii) the maintenance plan for the next fiscal year, with a justification for the assigned priorities, the type of activities, the timeline for execution, and financial and physical resources.

3. External audit

- 3.30 The TEU and all the official participating entities will adopt an accounting system and maintain records in accordance with generally accepted accounting practices. The executing agency is to submit to the Bank the audited yearly financial statements of the program for its duration, within 120 calendar days of the end of each fiscal year during the period of program execution. A final audit report will be submitted within 120 days after the final disbursement.
- 3.31 With a view to ensuring sound management and transparency in the administration of program resources, all contracts and expenditures will be subject to an external audit. The audit will be conducted by an independent public accounting firm acceptable to the Bank in accordance with the terms of reference previously approved by the Bank (documents AF-400 and AF-500). The auditing firm will be selected and contracted according to the Bank's bidding procedures for external

audits (document AF-200). The external auditor will issue quarterly reports, including an evaluation of the environment and structure of the internal control system and a comprehensive review of the procurement and disbursement procedures within 60 days after end of each calendar quarter.

4. Final and ex post evaluations

- 3.32 The program will finance individual projects to rehabilitate basic economic infrastructure in different sectors and regions, and its activities and direct benefits will be extensively documented. However, the authorities felt an ex post evaluation of the impact of the program would not be necessary since there would be no exclusive causal link between the program's outputs and the country's economic recovery. Information on the logical framework indicators resulting from the evaluations of performance will be available to the Bank and the Haitian authorities, in case either decides to conduct an ex post evaluation of the operation in the future.

IV. VIABILITY AND RISKS

- 4.1 The technical, economic, institutional, financial, environmental and social viability of this operation has been established based on studies and analyses that are summarized in this section, and taking into account that the executing and co-executing units will receive the support of a specialized firm throughout the project cycle for the duration of the program.

A. Institutional and financial viability

- 4.2 The multisector nature of this program, which calls for proper coordination between different levels of governmental authority, and the poor operational capacity of Haiti's public sector agencies make it difficult to employ regular State structures to carry out program-related tasks in the absence of a central support and control mechanism to guarantee the program's transparency and efficiency. This explains the decision to use a technical unit to implement the program (TEU), with the technical support of a private firm specialized in project engineering management (PEM). Contact with the line ministries will be maintained through liaison officials that will function as focal points for internal coordination and external communication. The entire process will be validated and backed by the Ministry of Economy and Finance. This structure combines high-level political support with independent technical capacity.
- 4.3 The Technical Executing Unit located within the MEF is understood to be temporary, given that the performance evaluations may recommend its reorganization or even its relocation to another agency based on technical criteria and to make the program's institutional framework more compatible with the country's long-term institutional framework. The final evaluation should enable the Haitian authorities and the Bank to examine the advisability of preserving this institutional arrangement in the long term.
- 4.4 The institutional design has taken into account that creating ad hoc units without a strategy for handing back responsibilities is an execution methodology that will end up further weakening public institutions over time (see paragraph 1.16). The aim has therefore been to involve the ministries and decentralized national agencies throughout the project cycle, not only in proposing projects and receiving project financing, but also in contracting for and supervising those works on behalf of the program under the coordination of the TEU and with the technical support of the TPM. In this manner, the operation itself serves to strengthen the line institutions by helping them to exercise their contracting and supervisory authority.
- 4.5 Because the Bank only recently resumed lending operations in Haiti, the level of up-to-date local knowledge about institutions, political restrictions and the administrative capacities of the different participating ministries are limited. For

this reason, the program is providing for a process of reviewing and gradually refining its operational methodology and institutional framework by using the program performance reviews, with a view to adapting the execution plan and incorporating lessons along the way based on observed performance. Dividing the loan resources into three tranches spreads out the workload for the executing agencies and limits administrative and financial risks. Dividing the program into three stages, each corresponding to one of the tranches, also makes this program compatible with the institutional strengthening efforts put forward by the Bank.

- 4.6 Given that this operation involves infrastructure projects in several different sectors, a specific institutional strengthening component has not been included. In the long term, however, the sustainability of infrastructure projects can only be guaranteed through the institutional strengthening of the agencies charged with planning, financing, executing, and maintaining the country's basic infrastructure. It is therefore suggested that the Bank design institutional strengthening programs in the transportation (MTPTC) and power (EdH) sectors to be financed primarily with technical cooperation resources. These programs should include sector-level surveys of needs and priorities in terms of investment in basic infrastructure and a study of the strengths and weaknesses of the current institutional model so as to identify redundancies, gaps, and inefficiencies in the institutional framework and precisely define the powers and functions of the agencies involved, for the purpose of rationalizing procedures and improving the allocation of economic, technical, human, and technology resources.
- 4.7 While the program is, in principle, aimed at financing projects in various infrastructure sectors, it is felt that including power sector projects in the program without having defined a reform strategy could interfere with the dynamic and the position maintained by the Bank vis-à-vis the country's authorities for several years, as well as with current efforts of other multilateral agencies to establish more favorable investment conditions. Accordingly, the program will be promoted with the power sector authorities and the projects will only be included subject to an express written agreement between the MEF and the Bank guaranteeing the compatibility of the activities with the process of long-term reform and if the terms of the respective MOU can guarantee sector consistency.
- 4.8 The macroeconomic problems the country is facing could jeopardize the financial viability of the program if the authorities are unable to guarantee the necessary counterpart funding. To minimize this risk, the Bank will continue to make every effort to obtain financial support to help cofinance the local counterpart funding.

B. Technical and economic viability

- 4.9 The absence of quality information about the investment, rehabilitation and maintenance priorities for infrastructure and the urgent need to see tangible economic results in the short term means that eligibility criteria should be very

simple and try to minimize the errors that inevitably make their way into investment plans. A list of four eligibility criteria for the works to be financed has been prepared and will be complemented with indicators that will make it possible to standardize the evaluation process and make the decision-making process transparent and predictable. The aim is to have the entire process of evaluating a project finished in a short period of time, never to exceed one person-month.

- 4.10 As part of program preparation, a sample of works was selected to illustrate the type of intervention to be financed with this operation. Although the preinvestment studies of the projects have not been completed, based on what has been done, it is apparent that the projects are technically and economically viable.

C. Social and environmental viability

- 4.11 The types of civil works that the program will be financing normally have a direct, and in some cases an indirect, impact on the environment. For example, they may require the temporary or permanent relocation of families who live in the vicinity of the works or whose homes are in the right of way; works such as markets, slaughterhouses or quarantine stations present challenges in terms of solid and liquid waste management; vehicle weigh stations and transport terminals require measures to prevent spillage of fuels and oils; and irrigation and hydraulic management works may adversely affect the functioning of ecosystems associated with the bodies of water concerned.
- 4.12 For the purposes of identifying and mitigating the potential negative environmental consequences of the works to be financed with program resources, the Operating Regulations will incorporate environmental and social considerations throughout the entire project cycle to ensure that the Bank's environmental policies and local standards are adhered to. Preinvestment studies will be required to include environmental analyses and/or ESIA's (only if necessary) and one of the technical eligibility criteria for works is that they have no significant environmental impacts and/or incorporate proper mitigation measures. Environmental monitoring of the works will be entrusted to the TPM, which must have a socioenvironmental specialist at its disposal on a permanent basis. Should it be necessary to relocate families, the Bank's Involuntary Resettlement Policy will be followed.
- 4.13 As regards the projects included in the sample negotiated with the Haitian authorities, the environmental and social analyses of these projects and a model of environmental and social methodology to be applied to the rest of the program are considered conditions precedent to first disbursement. These outputs will be prepared with the help of the Bank, and will require the latter's nonobjection.
- 4.14 Program resources will also finance: (a) if necessary, the preparation of terms of reference, ESIA's and detailed EMP's that might arise as a result or recommendation of the previous environmental and social analysis; and (b) all mitigation measures

for the identified adverse socioenvironmental impacts, the cost of which should be included as a specific item in the terms of the contract and/or project budgets. Based on the Bank's cumulative experience with the type of medium-sized, non-conflictive civil works that this program seeks to finance, it is estimated that 5% of the net cost of the works will be spent on environmental and social mitigation measures.

- 4.15 A crucial factor in guaranteeing the sustainability of basic infrastructure works is the creation of a sense of ownership among the users, beneficiaries, and neighbors of those works. One of the TPM's missions is to advise the line agencies as to participatory mechanisms that involve the community of users, beneficiaries and neighbors in construction (in the case of labor-intensive works), maintenance, management, and care.

D. Benefits

- 4.16 The operation will help to revitalize the economy and to raise quality of life indices for the Haitian population through projects to rehabilitate the country's basic infrastructure. The concentration of public investment projects, together with sufficient levels of quality and maintenance, should aid in generating momentum for private investment in the areas and sectors benefiting from these works. The program's impact may therefore be measured with indicators such as access to basic services, levels of private investment, and indices of economic activity.
- 4.17 Over the course of the program, between 90-120 individual projects to rehabilitate and/or improve the country's basic infrastructure will be financed, each of which will have specific, quantifiable impacts in terms of improving access to public goods and services, reducing the cost and time of economic transactions, facilitating commerce and integration of local markets into national and international markets, reducing operational costs, and improving measures of environmental sustainability, etc. For each project, the TPM should define specific indicators for expected outcomes and estimate the number of beneficiaries, so that the benefits of the operation can be quantified and its outcomes verified.
- 4.18 To increase its effectiveness in terms of contributing to economic recovery, the program will promote targeted investment in those geographical areas with the potential to attract domestic and international private investment. This will also serve to spur economic development areas outside of Port-au-Prince, which will help to reduce internal migration and demographic pressures on the capital.
- 4.19 If the economy does recover, which depends on more than just this program, although this program can contribute toward that goal, this should be reflected in an improvement in the country's structural unemployment indices. The execution of the works financed under the program and their maintenance will also provide opportunities for small and medium-sized Haitian companies in the construction

sector, as well as providing jobs for the local population by hiring them for the rehabilitation and maintenance projects.

- 4.20 In addition to the infrastructure works themselves, the program will provide the opportunity to verify the functionality of the facility and refine its operational methodology, furnishing the country with a flexible and transparent tool for allocating resources to priority infrastructure works. The hope is that the proposed mechanism will attract other international agencies to cofinance the facility.

E. Risks

- 4.21 There are multiple risks associated with this operation. First and foremost, information about the country's needs, priorities, and capacities is lacking. There are no reliable statistics or data. Given the limited success of past operations and the interruption of lending operations on the part of international agencies and the Bank itself in the recent past, it is difficult to identify successful models of operations that could be replicated. To overcome this problem, a mechanism has been designed to draw lessons from project performance and incorporate them, fine-tuning the methodology and the institutional framework along the way.
- 4.22 Political instability and the weakness of public institutions in Haiti may hinder the success of the operation. To attempt to reduce this risk, this operation will support the activities of the executing agency and the line ministries through a private firm that will serve as technical manager. It is suggested that an institutional strengthening program be carried out, with technical-cooperation funding. Dividing the program into three stages, each one corresponding to one of the tranches, can create linkage to progress in institutional strengthening, e.g., the second and third tranches could be directed toward those sectors that have made more progress in this regard.
- 4.23 Local construction companies lack sufficient financial and technical capacity. Companies will have to be prequalified to be placed on the contractor registry, which will be open to Haitian companies and companies from the Bank's other member countries. Also, there is a widespread lack of trust with regard to the management capacity of government agencies and their ability to pay on time. To make the program more attractive, the exchange risk will be minimized or eliminated for contractors by denominating contracts in a hard currency and converting to Haitian gourdes at the time of payment when payment becomes due in the Republic of Haiti.
- 4.24 The critical state of Haiti's infrastructure (for which there is no accurate diagnostic status and needs assessment) and the need to obtain parliamentary approval for this operation during the current legislative session suggest the need to make the usual conditions requiring prior analysis for program approval more flexible and to act quickly. The decision to proceed in this manner entails several inherent risks,

including: (i) the program may not take off owing to lack of leadership on the part of the ministry in charge of execution and/or a lack of capacity or interest on the part of the other government agencies involved; (ii) the plan for administering the facility may fall short and bad projects may predominate; (iii) the program may not be consistent with the dynamics and priorities of the sectors they affect. To lessen these risks, the Bank's Country Office and operational divisions will need to monitor the start of the program very closely and offer technical and financial assistance to the Haitian authorities to achieve implementation.

V. EXCEPTIONS TO BANK POLICY

- 5.1 A key element in guaranteeing the program's medium- and long-term impact is ensuring that these works are maintained for a long enough period of time that their existence and operation can be factored into the outlook of private investors. Thus, the works will effectively translate into a stimulus for the private sector economy. Once financing for the works is approved, the operation requires the TPM and the ministry or line agency to define an appropriate maintenance plan for each project. Also, neighbors, users, and beneficiaries will be involved in construction, management and maintenance of these works, in the hopes of creating a sense of ownership and fostering preservation and proper use.
- 5.2 However, institutional weaknesses and a chronic lack of resources make it unlikely that the Haitian government could fund these operations without the corresponding management and maintenance plan. For this reason, it is recommended that the program help finance the agreed-upon maintenance plans. For this to occur, the Bank would in some cases have to grant an exception to Operational Policy OP-707, Maintenance and Conservation of Physical Works and Equipment, which prohibits the Bank from providing financing for routine maintenance of infrastructure works. The requested exception would allow the facility to grant funds to finance the management and maintenance plan for the constructed works as defined by the TPM and the ministry or line agency.
- 5.3 The exception to the policy on Maintenance and Conservation of Physical Works and Equipment would be granted by the Bank on a case-by-case basis, subject to a fixed term, and contingent upon demonstrated technical need in the framework of a management and maintenance plan for the works in question.
- 5.4 To help the borrower fulfill the conditions precedent to the first disbursement and to facilitate the initiation of operations, it is proposed that a special disbursement be authorized prior to fulfillment of some of the general conditions precedent to the first disbursement set forth in the general contractual conditions (see paragraph 3.12).

HAITI
REHABILITATION OF BASIC ECONOMIC INFRASTRUCTURE (HA-0093)

LOGICAL FRAMEWORK

Objective	Indicators	Means of verification	Assumptions
GOAL To help stimulate economic recovery and improve the quality of life of the population in areas receiving investment.	<ul style="list-style-type: none"> • Increase private investment in the program's service areas by 3%. • Reduce unemployment in the program's service areas by 2%. • Improvements in access to basic public services in program areas. 	<ul style="list-style-type: none"> • National statistics on employment, investment, public service coverage 	<ul style="list-style-type: none"> • Macroeconomic stability • Political stability. • Other Strategy 2003-2004 projects are executed satisfactorily. • Projects target areas with high potential for attracting investment. • Haiti emerges from its power crisis.
PURPOSE Basic public service infrastructure with a major impact on the local economy rehabilitated, administered, and maintained efficiently and effectively on a sustainable basis.	<ul style="list-style-type: none"> • Institutional indicators are fulfilled during program execution and upon completion the line ministries have plans and resources to maintain works in their respective sectors. • By the end of the program, all of the works financed works are still operating and are maintained regularly. • One-third of the financed works have participatory mechanisms whereby users, residents, and beneficiaries are involved in their management and maintenance. • 80% of residents, users, and beneficiaries express satisfaction with rehabilitated works. • Upon completion of program, the country has national resources and resources from the international community for investment in basic economic infrastructure and for its maintenance. 	<ul style="list-style-type: none"> • Periodic program performance reviews • Final evaluation of operations • TPM reports • Government statistics • International agency activity reports • Letters from TEU/TPM to communities receiving investment and surveys of beneficiaries. • National budget • Reports on annual maintenance 	<ul style="list-style-type: none"> • Progress is made in institutional strengthening of line agencies and in eliminating parallel structures and redundancies in the state apparatus. • Works are executed within the expected time frame and maintenance plans are followed. • Operations are carried out to provide technical support to public agencies as a means of inculcating and building on the concept of a culture of maintenance.

Objective	Indicators	Means of verification	Assumptions
COMPONENTS <i>Component I – Basic Economic Infrastructure Rehabilitation Facility:</i> The facility is set up and the three program stages are carried out, together with the work schedule.	<ul style="list-style-type: none"> • 90-120 infrastructure rehabilitation projects in 54 months • 90% of works in each stage awarded in 15 months at most 	<ul style="list-style-type: none"> • TPM and TEU activity reports • Performance reviews • Final evaluation • Auditing reports • Surveys of relevant public and private entities 	<ul style="list-style-type: none"> • Active cooperation and coordination with public entities • Strict adherence to timetables • Interest and participation on the part of construction companies • Adoption of corrections resulting from performance reviews
<i>Component II – Administration, Auditing, Evaluation, and Monitoring:</i> An efficient and transparent institutional framework is designed for the administration of the program and know how is transmitted to public entities.	<ul style="list-style-type: none"> • At least 2 MOUs signed in first 6 months, including institutional indicators on sector maintenance. • Institutional framework and operational methodology refined by end of 3rd stage. • High level of satisfaction with performance and transparency. 		
ACTIVITIES <i>Component I – Basic Economic Infrastructure Rehabilitation Facility:</i>	<ul style="list-style-type: none"> - Creation of TEU and specific support for ministries and line entities - Contracting of TPM and external auditor - Provisioning of the Facility - Selection and construction of works - Consulting services for performance review - Final evaluation 	<ul style="list-style-type: none"> • TEU and TPM reports • Auditing reports • Performance reviews 	<ul style="list-style-type: none"> • Interest and motivation on part of public entities
<i>Component II – Administration, Auditing, Evaluation and Monitoring:</i>			

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Representative Sample of Projects under Tranche I*			
Project	Community Province	Responsible entity	Amount in US\$ estimated
Rehabilitation of Port of Saint Marc	Saint Marc, Artibonite	APN	775,000
Rehabilitation of 6km stretch between Ferrier – RN6	Ferrier, Northeast	MTPTC	352,700
Bridge over the Bayeaux river	Bayeaux, North	MTPTC	999,900
Rehabilitation of bridge over the Lascahobas river	Lascahobas, Center	MTPTC	787,600
Rehabilitation of access route from Fort-Liberté to Cap-Haïtien – Dajabón (Dominican Republic) highway	Fort-Liberté, Northeast	MTPTC	825,000
Rehabilitation and reinforcement of Drinking Water Network	Fort-Liberté, Northeast	SNEP	913,000

* Version agreed upon in the MEF-IDB aide-mémoire of 17 September 2003.

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PROCUREMENT SCHEDULE

Main items of procurement by component	Source of financing		Type of contract	Bidding method	Tentative date of specific procurement notice
	IDB (%)	Local (%)			
Component I – Rehabilitation of basic economic infrastructure					
Rehabilitation works	94%	6%	Works	ICB ¹ / NCB ² / RB ³	2004-2009
Environmental mitigation	100%	-	Works ⁴	NCB / RB	2004-2009
Maintenance plans	61%	39%	Works	NCB / RB	2004-2009
Preinvestment	67%	33%	Consultancy	NCB / ICP / NCP	2004-2009
Inspection and supervision of works	100%	-	Consultancy	ICB	2004-2009
Component II – Administration, audits, evaluation and monitoring					
Start-up facilitation	100%	-	Consultancy	ICP	2004
Technical program management	100%	-	Consultancy	ICB	2004
External audits	100%	-	Consultancy	NCP	2004
Operational evaluations	100%	-	Consultancy	ICP	2005-2009
TEU	75%	25%	Consultancy	NCP	2004
Liaison offices	75%	25%	Consultancy	NCP	2004-2009

ICB= International competitive bidding
NCB= Local competitive bidding

ICP= International call for CVs or proposals
NCP= National call for CVs or proposals

RB= Restricted bidding

¹ Works contracts of more than US\$1,000,000

² Works contracts between US\$200,000 and US\$ 1,000,000

³ Will proceed only after a Roster of Contractors has been established.

⁴ As a general rule, mitigation works are awarded out of the budget for the principal work.